KINGFISHER AIRLINES LIMITED

ANNUAL REPORT 2011 - 2012

Kingfisher Airlines Limited

Registered Office: UB Tower, Level 12, UB City, 24, Vittal Mallya Road, Bangalore - 560 001

NOTICE

NOTICE IS HEREBY GIVEN OF THE SEVENTEENTH ANNUAL GENERAL MEETING of the Company to be held at Good Shepherd Auditorium, Opposite St. Joseph's Pre-University College, Residency Road, Bangalore – 560 025 on Wednesday, September 26, 2012 at 2.30 p.m. for the following purposes:

1. To receive and consider the accounts for the year ended March 31, 2012 and the reports of the Auditors and Directors thereon;
2. To elect a Director in the place of Mr. A. K. Ravi Nedungadi who retires by rotation and being eligible, offers himself for re-appointment;
3. To appoint Auditors and fix their remuneration. The retiring Auditors M/s. B. K. Ramadhyani & Co., are eligible for re-appointment;
4. **Appointment of Mr. Manmohan Singh Kapur as a Director:**

   To consider and, if thought fit, to pass with or without modification, the following Resolution as an Ordinary Resolution:

   "RESOLVED THAT Mr. Manmohan Singh Kapur, who was appointed as an Additional Director and holds office upto the date of this Annual General Meeting, be and is hereby appointed as a Director of the Company liable to retire by rotation."

By Order of the Board

Place : Mumbai

Date : August 10, 2012

Bharath Raghavan

Chief Legal Officer & Company Secretary

Notes :

1. Please refer to the explanatory statement given hereunder.
2. **A SHAREHOLDER ENTITLED TO ATTEND THE MEETING AND VOTE THEREAT MAY APPOINT A PROXY TO ATTEND AND VOTE ON HIS BEHALF ONLY ON A POLL. SUCH A PROXY NEED NOT BE A MEMBER OF THE COMPANY.**

   The proxy form duly completed must reach the Registered Office of the Company not later than forty-eight hours before the time appointed for the holding of the Meeting.
3. The Register of Members and Share Transfer Books will remain closed from Friday, September 21, 2012 to Wednesday, September 26, 2012 (both days inclusive).

4. Members are required to intimate immediately to the Company's Registrars and Transfer Agents, M/s Karvy Computershare Private Limited, 17-24, Vittal Rao Nagar, Madhapur, Hyderabad – 500 081 (Telephone No: 040-44655000, Fax No: 040-23420814), in case of shares held in physical form and to their respective Depository Participants, in case of shares held in dematerialized/ electronic form:-
   a) any change in their registered addresses along with PIN Code Number; and
   b) details about their email addresses, if any, so that all notices and other statutory documents which are required to be sent to the Members, as per the provisions of the Companies Act, 1956, can be sent to their email addresses, as a measure of "Green Initiatives" introduced by the Ministry of Corporate Affairs (MCA).
5. Members holding shares in the same name or same order of names under different ledger folios are requested to apply for consolidation of such folios, to the Company's Registrars and Transfer Agents, at the address stated in Note No. 4 above.
6. Members may please address all their documents/correspondence relating to the equity shares of the Company directly to the Company's Registrars and Transfer Agents, at the address stated in Note No.4 above.
7. Nomination facility for shares is available for Members. The prescribed format in this regard can be obtained from Company's Registrars and Transfer Agents, at the address stated in Note No. 4 above.
8. The Company's equity shares are under compulsory dematerialisation. Accordingly, trading of these shares through the Stock Exchanges would be facilitated if the share certificates are dematerialised. Members holding shares in physical form are advised to consider opening of a Demat Account with an authorised Depository Participant and arrange for dematerializing their shareholdings in the Company.
9. All Unclaimed/Unpaid Dividend for the financial year 2003-04, required to be transferred to the Investor Education and Protection Fund (Fund) in terms of Section 205C of the Companies Act, 1956, have been transferred to the Fund.
10. Members may kindly note that once the Unclaimed/Unpaid Dividend is transferred to the Fund, no claim shall lie against the Fund or the Company in respect of the individual amounts which were unclaimed and unpaid for a period of seven years from the date that they first became due for payment and no payment shall be made in respect of any such claim.
11. Members attending the Annual General Meeting are requested to bring with them the following:
    a. Members holding shares in dematerialised form, their DP & Client ID Numbers.
    b. Members holding shares in physical form, their Folio Numbers.
    c. Copy of the Annual Report and Notice, as no copies thereof would be distributed at the Meeting.
    d. The Attendance Slip duly completed and signed in terms of specimen signature lodged with the Company.

    The Company would accept Attendance Slip from a Member actually attending the Meeting; or from the person attending as a proxy under a valid proxy form registered with the Company not less than 48 hours prior to the Meeting. Attendance Slips of Members/valid proxies not personally present at the Meeting, or relating to Proxies which are invalid, will not be accepted from any other Member/person.

    The Meeting is for Members or their proxies only. Please avoid being accompanied by non-Members/children.
12. The Company has designated an exclusive email Id viz., investor.relations@flykingfisher.com to enable the investors to post their grievances and monitor its redressal.
13. Corporate members are required to send to the Company a certified copy of the Board Resolution pursuant to Section 187 of the Companies Act 1956, authorizing their representative to attend and vote at the Annual General Meeting.
14. The details required to be given in pursuance of Clause 49 of the Listing Agreement in case of directors being appointed/ re-appointed are given in the Corporate Governance Section of the Annual Report.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 4 – Appointment of Mr. Manmohan Singh Kapur as a Director:

Mr. Manmohan Singh Kapur was appointed as an Additional Director (category Independent and Non-Executive) of the Company with effect from April 24, 2012 after receipt of necessary security clearance from the Ministry of Civil Aviation in respect of the appointment and holds office as Director upto the date of this Annual General Meeting.

Mr. Manmohan Singh Kapur holds Degrees of B.Sc & M.A from Punjab University. He is a career banker with more than 39 years experience, mostly in the field of banking. He retired as Chairman & Managing Director of Vijaya Bank. He was also the former Executive Director and Officiating Chairman & Managing Director of Syndicate Bank, Punjab & Sind Bank. Prior to this he was Chief Vigilance Officer of Indian Overseas Bank as well as Union Bank of India.

Notice under Section 257 of the Companies Act, 1956 has been received from a Member signifying intention to propose the appointment of Mr. Manmohan Singh Kapur as a Director of the Company at this Annual General Meeting.

Mr. Manmohan Singh Kapur does not hold any shares in the Company.

Your Directors recommend the Ordinary Resolution for approval by the Members.

None of the Directors other than Mr. Manmohan Singh Kapur is interested or concerned in the Resolution.

By Order of the Board

Place : Mumbai
Date : August 10, 2012

Bharath Raghavan
Chief Legal Officer & Company Secretary

C O N T E N T S

BOARD OF DIRECTORS

Dr. Vijay Mallya, *Chairman & Managing Director*

Mr. Subhash R. Gupte, *Vice Chairman*

Mr. A. K. Ravi Nedungadi

Mr. Manmohan Singh Kapur

PRESIDENT & CFO - THE UB GROUP

Mr. A. K. Ravi Nedungadi

CHIEF EXECUTIVE OFFICER

Mr. Sanjay Aggarwal

CHIEF FINANCIAL OFFICER

Mr. A. Raghunathan

CHIEF LEGAL OFFICER & COMPANY SECRETARY

Mr. Bharath Raghavan

AUDITORS

M/s. B. K. Ramadhyani & Co.
Chartered Accountants
4B, 4th Floor, 68, Chitrapur Bhavan,
8th Main, 15th Cross, Malleswaram,
Bangalore – 560 055

REGISTERED OFFICE

UB Tower, Level 12, UB City,
24, Vittal Mallya Road,
Bangalore – 560 001

To The Members,

Your Directors present the 17th Annual Report along with the Audited Accounts of your Company for the year ended March 31, 2012.

Operations

Your Company's operations during the year ended March 31, 2012 have resulted in:

(Rs. in million)

	Year ended March 31, 2012	Year ended March 31, 2011
Gross Income	**58,239.08**	64,955.62
Earnings before financial charges, lease rentals, depreciation & amortization and taxes (EBITDAR)	**1,222.08**	11,084.37
Less:		
Depreciation & Amortization	**3,418.66**	2,410.38
Lease Rentals	**8,684.52**	9,839.96
Financial charges	**12,763.35**	13,129.40
Profit / (Loss) before taxes	**(23,644.45)**	(14,295.36)
Provision for taxes (including FBT)	**11,180.85**	4,933.85
Net Profit / (Loss) from ordinary activities after tax	**(12,463.60)**	(9,361.51)
Exceptional Item	**10,816.48**	912.47
Net Profit / (Loss) after tax	**(23,280.08)**	(10,273.98)

Scheduled Airline Operations

During the year under review, your Company recorded a domestic market share of 15.6% and carried more than 10.5 million passengers across both domestic and international sectors. Fleet size of aircraft used in scheduled operations stood at 55 aircraft at year end. Despite significant downsizing measures in the second half of the year, your Company operated over 110,000 flights in the year and maintained connectivity to key destinations in the country through the year, including under-serviced stations such as Dharamsala, Shimla, Kulu, Hubli and Kandla.

During the first half of the year, your Company had been able to recover the Airbus A320 family aircraft in your Company's fleet which were grounded in 2010-11 due to V2500 engine related issues. This reflected in strong operating performance for both the quarters of the first half of 2011-12. Your Company had also made public its intent to exit the low-cost model and to reconfigure aircraft along with a phased transition to the Full-Service model. Your Company has been able to partially progress on this plan.

However, given the pressure on the cost front due to unabated increase of fuel prices, Rupee de-valuation, rising interest rate and continued downward pressure on yields, your Company decided to downsize operations starting November, 2011. Despite the operational downsizing, the cash losses continued, leading to discontinuation of services from IATA's Billing and Settlement Plan (BSP). Despite the additional disadvantage created, your Company designed alternate means to sell and distribute inventory.

As a part of the overall downsizing of operations during the year under review, your Company also temporarily shut down operations on its international network to contain operational losses.

Your Company continues to maintain a "member-elect" status with the **one**world Alliance. The 15 to 18 month complex integration process was successfully near completion for the February 10, 2012 integration date. However, in light of priorities centered around your Company's recapitalization efforts, the **one**world management team agreed with your Company to defer the joining date - a move that would give your Company more time to address the challenges. They agreed to work with your Company during this phase with an aim of setting a new joining date.

Your Company continued to focus on major cost control initiatives during the year to reduce distribution costs, implement fuel optimization systems and processes, improve aircraft utilization, optimize headcount and re-negotiate general contracts in order to enforce cost competitiveness, which is reflected in an improvement in the non-fuel EBITDA cost index.

Your Company continued its focus on various marketing and commercial initiatives including tie-ups with corporate houses to get premium business and launch of the Business Mileage program targeted at Small Medium Enterprises (SME). During the year under review, your Company won the 'Best Indian Airline' Award from Business Traveller Magazine – London, 'Best Airline for Business Travel within India' and 'Best Airline for Leisure Travel within India' from Conde NAST READER Travel Awards and 'Best Loyalty Innovation' Award in the "Judge's Choice" category at Loyalty Awards 2012 hosted by Flight Global.

In view of operating losses incurred during the year, your Directors do not recommend payment of any dividend.

Subsidiary

The statement of your Company's interest in its only subsidiary, Vitae India Spirits Limited, as at March 31, 2012, prepared in accordance with the provisions of Section 212(3) of the Companies Act, 1956 is attached to the Balance Sheet.

Outlook

Your Company had successfully established itself as one of India's largest domestic carriers by passengers flown and cities served over the last decade. Your Company has long enjoyed market leadership with a wide network reach in India, an awarded frequent flyer program and wide distribution. Due to the current situation, your Company is operating as a "holding pattern" with limited operation, pending policy changes which are in the offing.

The Indian airline industry is currently exposed to one of the toughest operating environments and is expected to struggle with profitability pressures, with one of the highest prices for Jet Fuel across the world given tax structure, recent depreciation of the rupee, and the high cost of borrowing. The Government of India is in the process to usher in fiscal measures and reforms that will make the operating environment more conducive for profitable business, viz.

- Approved direct import of jet fuel by airlines.
- Allowed External Commercial Borrowings (ECB) to the extent of USD 1 billion to be used as working capital.
- Opened the international market to private carriers by taking away the right of first refusal from the national carrier.
- In the process of modifying the Foreign Direct Investment (FDI) policy that will allow foreign airlines to invest in Indian carriers.

Your Company will undertake a phased and pragmatic approach to re-induction of capacity as well as further market expansion. The focus will be on maximizing the nascent potential of the domestic Indian market and capitalizing on strategic international routes.

Your Company will continue to closely monitor key market trends as well as macro-economic environment in the Country from a global perspective linked to the recovery plan.

Optionally Convertible Debentures

Loans / Inter Corporate Deposits from certain business associates aggregating to Rs.7,093 million were converted into 70,931,985 8% Optionally Convertible Debentures of Rs.100/- each **("OCDs")** which were convertible into equity shares within a period of 18 months from their issue, after which they were redeemable.

During the year under review, your Company, on February 18, 2012, allotted 79,868,051 Equity Shares of Rs. 10/- each of your Company pursuant to the conversion of 19,975,000 OCDs of Rs 100/- each.

Subsequent upon the said allotment of equity shares as mentioned above, United Breweries (Holdings) Limited (UBHL) along with its subsidiaries holds 47.89% of the paid-up share capital of your Company and therefore your Company ceases to be a subsidiary of UBHL.

Subsequent to the year under review, your Company further allotted to the then holders of the OCDs pursuant to the exercise of the conversion option by them:

1. 35,642,361 Equity Shares of Rs. 10/- each of your Company, pursuant to the conversion of 8,422,290 OCDs of Rs 100/- each on April 10, 2012.
2. 62,160,364 Equity Shares of Rs. 10/- each of your Company, pursuant to the conversion of 14,427,421 OCDs of Rs 100/- each on April 24, 2012.
3. 133,272,991 Equity Shares of Rs. 10/- each of your Company, pursuant to the conversion of 28,107,274 OCDs of Rs 100/- each on June 23, 2012.

As on date, all the OCDs have been converted into equity shares.

Capital

During the year under review, your Company's Authorised Share Capital remained unchanged at Rs. 42,500,000,000/- comprising of 1,650,000,000 Equity Shares of Rs. 10/- each and 2,600,000,000 Preference Shares of Rs. 10/- each.

During the year under review, the Issued, Subscribed and Paid-up Share Capital of your Company has increased from Rs. 10,508,792,230/- divided into 497,779,223 Equity Shares of Rs. 10/- each and 553,100,000 8% Cumulative Redeemable Preference Shares of Rs. 10/- each to Rs. 11,307,472,740/- divided into 577,647,274 Equity Shares of Rs. 10/- each and 553,100,000 8% Cumulative Redeemable Preference Shares of Rs. 10/- each.

Subsequent to the year under review, the Issued, Subscribed and Paid-up Share Capital of your Company has increased to Rs. 13,618,229,900/- divided into 808,722,990 Equity Shares of Rs. 10/- each and 553,100,000 8% Cumulative Redeemable Preference Shares of Rs. 10/- each.

Depository System

The trading in the equity shares of your Company is under compulsory dematerialization mode. As of date, equity shares representing 99.91% of the equity share capital are in dematerialized form. As the depository system offers numerous advantages, members are requested to take advantage of the same and avail of the facility of dematerialization of your Company's shares.

Auditors' Report

As regards observations in para 4 of Auditors' Report, the Statutory Auditors have qualified their report with a remark that the receipt of subsidy from aircraft manufacturers should be recognized as income on an systematic basis over the period necessary to match them with related costs which they are intended to compensate though the accounting treatment does not appear to be covered by the Accounting Standard (AS)-19 (Accounting for Leases) issued by the Institute of Chartered Accountants of India. In the opinion of the Directors:

(1) The lessor of the Aircraft is a person other than the Aircraft manufacturer and the lease contract is independent of the contract with Aircraft manufacturer.

(2) The termination, if any, of the lease contract does not in any event breach the conditions for the grant of subsidy by the Aircraft manufacturer.

(3) The subsidy value, referred to in Para 4 of the Audit Report have been received by your Company during the 15 months period ended June 30, 2006. As per Section 28 (iv) of the Income Tax Act, 1961, and precedents available under Income Tax laws, including pronouncements of the Apex Court, the revenue arising out of support packages will be treated as income for taxation purposes and therefore, it would not be prudent for your Company to treat the said revenues differently in the books of Accounts and for taxation purposes.

(4) In the event of non compliance of the contract with the Aircraft manufacturer, the resultant possibility of recovery of subsidy granted by the Aircraft manufacturer has been disclosed as contingent liability and this accounting treatment adopted by your Company is also based on the well established principle of differentiation of revenue receipt and capital receipt.

In view of the above, in the opinion of your Company, the accounting treatment of the support package received from the Aircraft manufacturer, as Income in the year of accrual and receipt is in order.

The fair market value of these Aircraft is not easily ascertainable due to the unique specifications of the Aircraft. Therefore, the management has obtained the valuation report for Aircraft of similar type from a leasing company to ascertain the fair market value which is higher than the sale price of these Aircraft. This is also supported by the fact that the insurance value to be covered as per respective Lease Agreements is much more than the sale value of the Aircraft.

As regards the observations in para 5 of the Auditors' Report, your Company has adopted the Exposure draft on Accounting Standard – 10 (Revised) 'Tangible Fixed Assets' which allows such costs on major repairs and maintenance incurred to be amortized over the incremental life of the asset. Your Company has extended the same treatment to costs incurred on major repairs and maintenance for engines pertaining to aircrafts acquired on Operating Lease.

As regards the observations in paras 8, 9 & 10 of the Auditors' Report, the note numbers 36(b), 39 & 52 to Notes to Financial Statements are self explanatory.

As regards the observations in the Annexure to the Auditors' Report, your Company has taken / is taking necessary steps to ensure improvement in certain procedures and also compliance with relevant laws.

Directors

Mr. A. K. Ravi Nedungadi, Director, retires by rotation and, being eligible, offers himself for re-appointment.

During the year under review, the following Directors resigned from the Board of Directors of your Company:

1. Diwan Arun Nanda	-	with effect from September 5, 2011
2. Mr. Piyush Mankad	-	with effect from January 9, 2012
3. Mr. Ghyanendra Nath Bajpai	-	with effect from January 9, 2012
4. Mr. Vijay Amritraj	-	with effect from March 14, 2012
5. Mr. Anil Kumar Ganguly	-	with effect from March 17, 2012

Subsequent to the year under review, Mr. Manmohan Singh Kapur was appointed as an Additional Director with effect from April 24, 2012 and holds office up to the date of the ensuing Annual General Meeting of your Company. Notice